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Jim Doyle
Governor

Roger M. Ervin
Secretary of Revenue

Assembly Committee on Transportation Hearing, April 19, 2007

Assembly Bill 112 - Exempting School Districts from the Motor Vehicle Fuel Tax (Representative Bies)

Description of Current Law and Proposed Change

- Under current law, an excise tax is imposed on gasoline and diesel fuel sold in the state. This bill creates an excise tax exemption on gasoline or diesel fuel sold to and used by school districts in Wisconsin to transport students to and from school activities and gasoline and diesel fuel sold to persons who transport students to and from school activities, pursuant to a contract with a school district.

Fairness/Tax Equity

- Motor vehicle fuel taxes are often treated as user fees to fund transportation projects and users contribute based on the amount of fuel they use. Thus, all road users help fund transportation infrastructure.

- However, imposing motor fuel taxes broadly results in one level of government taxing another, specifically, the state taxing school districts (and other state and local governmental operations). In addition, the user fee approach does not consider the user's ability to pay.

Impact on Economic Development

- Minimal

Administrative Impact/Fiscal Effect

- The bill would decrease state motor fuel tax revenues by an estimated $1.99 million in FY08 and $2.02 million in FY09. These revenue loss estimates only include fuel purchased directly by school districts in Wisconsin. Other users of fuel which would qualify for exemption under the bill are persons who transport students to and from school activities pursuant to a contract with a school district. The fuel expense data for this group is not available. Milwaukee and Madison are among the school districts that have contracted with companies to provide transportation for students.

- The Department of Revenue would incur one-time costs of $55,000 to administer the exemption under the bill (to revise computer applications and provide notification letters). The bill does not provide funding for these costs.

Prepared by: Jacek Cianciara (608) 266-8133
April 16, 2007

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WMC
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Wisconsin Manufacturers' Association • 1911
Wisconsin Council of Safety • 1923
Wisconsin State Chamber of Commerce • 1929

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To: Chairperson Jerry Petrowski
Members of the Assembly Committee on Transportation
From: R.J. Pirlot, Director of Legislative Relations
Date: April 19, 2007
Subject: **OPPOSE ASSEMBLY BILL 112**

Assembly Bill 112 (AB 112) "creates an excise tax exemption on gasoline or diesel fuel sold to and used by a school district in this state to transport students to and from school activities, or gasoline or diesel fuel sold to a person who transports students to and from school activities pursuant to a contract with a school district." *Analysis by the Legislative Reference Bureau.*

According to fiscal estimates prepared by the Wisconsin Department of Revenue and the Wisconsin Department of Public Instruction (DPI), AB 112 would reduce Transportation Fund revenues by approximately $2 million, annually, by exempting from motor fuel taxes school district purchases of motor fuel.

Moreover, AB 112 would reduce Transportation Fund revenues by an additional unknown amount, by exempting from motor fuel taxes contractor purchases of motor fuel. For example, according to DPI's fiscal estimate, Madison Metropolitan School District and Milwaukee Public Schools contract for pupil transportation.

Wisconsin Manufacturers & Commerce (WMC) opposes AB 112 because it reduces revenues needed for transportation infrastructure capacity expansion and maintenance. As a heavy-manufacturing industry state, Wisconsin faces many challenges, including several with respect to transportation services and, ultimately, our state's long-term economic health. Strong, robust multimodal transportation service networks help keep Wisconsin stores open, factories running, and payrolls being made. Economic development and transportation infrastructure are closely interrelated. A healthy, well-maintained transportation network is fundamental to ensuring Wisconsin manufacturers and other businesses have access to certain and reliable shipping and receiving services, and helps businesses meet such needs in the most efficient and cost-effective manner possible.

However, the future of adequate transportation funding in Wisconsin is in serious jeopardy. Over the last four years, over $1 billion in gas tax dollars have been transferred from the Transportation Fund to the General Fund, dollars which had been raised to pay for maintaining and improving Wisconsin's transportation network. To partially mask the effect of these budget transfers, borrowing to pay for transportation projects has dramatically soared. Debt service is projected to eat up nearly 11 percent of Transportation Fund revenues in fiscal year 2006-07 and over 15 percent in ten years, up from just 6.5 percent in fiscal year 1995-96, meaning less money will be available for future transportation infrastructure

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maintenance and upgrades. In addition, the Legislative Fiscal Bureau has projected that in order to keep pace with the state's long-term transportation infrastructure plan, including reconstruction of the Southeastern Wisconsin freeway system and upgrading Highway 41, up to nearly $700 million in additional *annual* funding is needed for the Transportation Fund.

In the proposed 2007-09 budget, $165 million would be shifted from the Transportation Fund and spent elsewhere. The proposed budget would change 16 existing appropriations from the General Fund to the Transportation Fund. For example, $55 million in pupil transportation aids would be paid for by the Transportation Fund, instead of the General Fund. In addition, the proposed 2007-09 budget would create two new Transportation Fund appropriations, one to spend $70 million out of the Transportation Fund to pay some of the debt service on bonds issued over the last two budgets to backfill earlier transfers; the Legislature and Governor had agreed the General Fund would pay this debt service because the money had been taken to support General Fund spending. The proposed 2007-09 budget undoes that agreement.

The Wisconsin Department of Transportation, in its 2007-09 state budget request, noted "significant transportation challenges in the next biennium," including $182 million needed for work on I-94 from Milwaukee to the Illinois border, $24 million in preliminary costs associated with reconstruction of the Zoo Interchange in Milwaukee, $67 million in highway maintenance costs, and $27 million for inflationary increases for local aid programs. In order to ensure Wisconsin businesses have continued access to a reliable, robust transportation network, Wisconsin elected officials are respectfully encouraged to identify *new* sources of Transportation Fund revenue, in particular, working to diversify revenue sources used for road building and maintenance; restore and respect the integrity of the Transportation Fund, using Transportation Fund revenues only for infrastructure maintenance and upgrades; and not whittle away at existing Transportation Fund revenues.

WMC respectfully requests you oppose AB 112.

WASB
WISCONSIN ASSOCIATION OF SCHOOL BOARDS
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Phone: 608-257-2622 • Fax: 608-257-8386
John H. Ashley, Executive Director

TO: Members, Assembly Committee on Transportation

FROM: Sheri Krause, Legislative Services Coordinator

DATE: April 19, 2007

RE: AB 112, exempting school districts from the motor vehicle fuel tax.

The Wisconsin Association of School Boards (WASB) supports Assembly Bill 112, relating to exempting school districts from the motor vehicle fuel tax.

School districts are statutorily required to provide pupil transportation. Districts use a mix of categorical and general equalization aids from the state, as well as local property taxes, to pay for their transportation costs, which includes the state motor vehicle fuel tax. As a result, income, sales and property taxes are used by school districts to pay the state motor vehicle fuel tax. School districts are exempt from the state sales tax and the federal motor vehicle fuel tax and ought to be exempt from the state motor vehicle fuel tax as well.

Transportation costs vary widely among school districts, ranging from $60 to over $1,000 per pupil in geographically large, rural districts. The amount of money saved by an individual district may not necessarily appear to be substantial considering its overall budget, but an exemption from the state motor vehicle fuel tax would enable the school board to redirect their limited dollars to the classroom.

The following are estimates of the potential savings if school districts had been exempt from the state motor vehicle fuel tax in the 2005-06 school year. (The estimates use total dollars spent on motor vehicle fuel as reported to the Department of Public Instruction by individual districts and an average $2.50 per gallon fuel cost.)

Potential savings:

Bayfield	$3,072	Lancaster	$6,127
Brillion	$1,522	Maple	$20,133
DeForest	$1,930	Marshfield	$31,649
Fennimore	$4,487	Monroe	$1,739
Hayward	$18,053	Mosinee	$9,702
Janesville	$7,288	Southern Door County	$9,278
Kewaunee	$1,538	Stevens Point	$44,101

The WASB urges your support for AB 112. Thank you.

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STATE REPRESENTATIVE
Garey Bies
1ST ASSEMBLY DISTRICT
COMMITTEE ON CORRECTIONS AND THE COURTS

Written Testimony of Representative Garey Bies
Assembly Committee on Transportation
Assembly Bill 112 – School District Gas Tax Exemption

Fellow Committee members, I appreciate the opportunity to submit my brief testimony in support of Assembly Bill 112, relating to the creation of a tax exemption for school districts on the purchase of motor vehicle fuel used for transporting students.

The fundamental logic behind this bill is that our school districts should not have to use property tax dollars to pay for the excise tax on gasoline.

In the First Assembly District, I have three zero-aid school districts, and like many other districts around the state, they are feeling the pinch of tight budgets. This legislation will provide for a little tax relief for school districts which ultimately means a little tax relief for the taxpayers.

It should also be noted that this legislation is also currently moving forward in a different form, one that would provide a tax credit instead of a tax exemption. I just want to be clear that I support both versions. In addition to being the lead author of this bill, I am also a co-author of the tax-credit version.

I mentioned that my testimony would be brief, so to conclude, I respectfully request your support of AB 112 in committee and I would be happy to answer any questions that you may have. Thank you.

First for Wisconsin!

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WTBA Testimony

Assembly Transportation Committee

Public Hearing – AB 112

Pat Goss, Executive Director
Wisconsin Transportation Builders Association

April 19, 2007

Good afternoon, Chairman Petrowski and members of the Committee. Thank you for the opportunity to testify on AB-112 today.

The Wisconsin Transportation Builders Association is a statewide organization of more than 240 contractors, consultants, and associated businesses.

I am here today to testify in opposition to AB-112.

I want to assure the Committee that WTBA is very supportive of Wisconsin's public schools. Our industry needs a well educated workforce. Today's construction technology requires new skills and improved training.

However, as members of the State Transportation Committee, you all understand the importance of investment in the state's transportation system. Transportation investment produces the very economic growth, which provides additional tax revenues that can be invested in education.

We have no interest in setting up a damaging debate about roads vs. schools, when both are critical to Wisconsin's future.

Before explaining the specific reasons for our opposition to AB-112, let me spend just a few minutes elaborating on the situation we are currently facing in transportation.

<u>Transportation's "Perfect Storm":</u>

A "perfect storm" is devastating the ability of the state and local governments to make the needed investments in transportation infrastructure.

I have attached 3 charts to my testimony to help explain this.

The first chart dramatizes the impact of global demand for construction materials and fuel, which has resulted in unprecedented construction inflation of 45% since 2002. The chart adjusts Chapter 20 appropriations since 2002 for the State Highway Rehabilitation program to the Wisconsin Construction Cost Index kept by Wisconsin DOT. The net loss in buying power is 28%. The same phenomenon is impacting local governments' ability to maintain and improve their roads. The proliferation of potholes this spring demonstrates the consequences of inadequate and delayed investment.

Significant debt service growth is visualized in the second chart. You can see the acceleration in recent years. The problem with debt service growth in that it consumes more and more current revenues to pay for yesterday's projects. This results in higher taxes than otherwise necessary, or fewer program dollars or both. Under the current Budget proposal, in FY 2009, the cost of debt service is projected to be the equivalent of 7.6 cents per gallon in fuel tax, or 25% of all fuel taxes collected. The currently proposed Biennial Budget also implies that debt service will climb to about $340 million in FY 2011, requiring the revenue yield of more than 10 cents per gallon.

The ongoing impact of indexing repeal is dramatized in the third chart. Assuming future inflation averages 3% annually, the revenue loss over 10 years will be $1.8 billion. This chart assumes no decline in fuel consumption, which is very unlikely. The price of fuel is shifting auto buyers to more fuel efficient vehicles, and some federal mandate to improve fuel efficiency in the name of energy independency and global warming seems inevitable.

The bipartisan Road to the Future Committee, which Rep. Gottlieb ably co-chaired, recommended last year an <u>annual increase of $700 million over time</u> in state transportation investment, just to restore prior investment levels, but not necessarily meet emerging needs.

The Legislature will be debating significant and needed transportation revenue increases in the Budget. However, we do not know what the outcome will be at this time.

<u>Specific Concerns About AB-112:</u>

The Fiscal note projects a revenue loss to the Transportation Fund of $2 million annually. But the note reports that this is only the tax savings in cases where the district buys the fuel. However, the bill also exempts from the fuel tax fuel purchased privately for use in vehicles contracted to carry pupils. This cost impact is unknown? Is it another $2 million, or more annually? In reality, this is only a partial fiscal note.

Another issue will be how to keep track of privately purchased fuel for school buses, as opposed to fuel purchased by the same company for non-exempt purposes. Will it be necessary for these companies to install costly separate tanks, such as those required for dyed non-exempt diesel fuel? The bill is silent on the appropriate tracking tool.

But the key question I hope you ask is why should the legislature even consider a bill to reduce transportation revenues, when every transportation dollar is precious and any savings here will be passed on to other users in the form of offsetting fee increases, or reduced transportation investment, potentially impacting the very roads and bridges these school buses will use. The core policy in transportation finance is that users should pay for the costs they create. School buses are large and heavy. Should they not pay their fair share?

It is highly unlikely that a bill will pass that exempts only schools, but not counties and municipalities. That fiscal impact would be much higher.

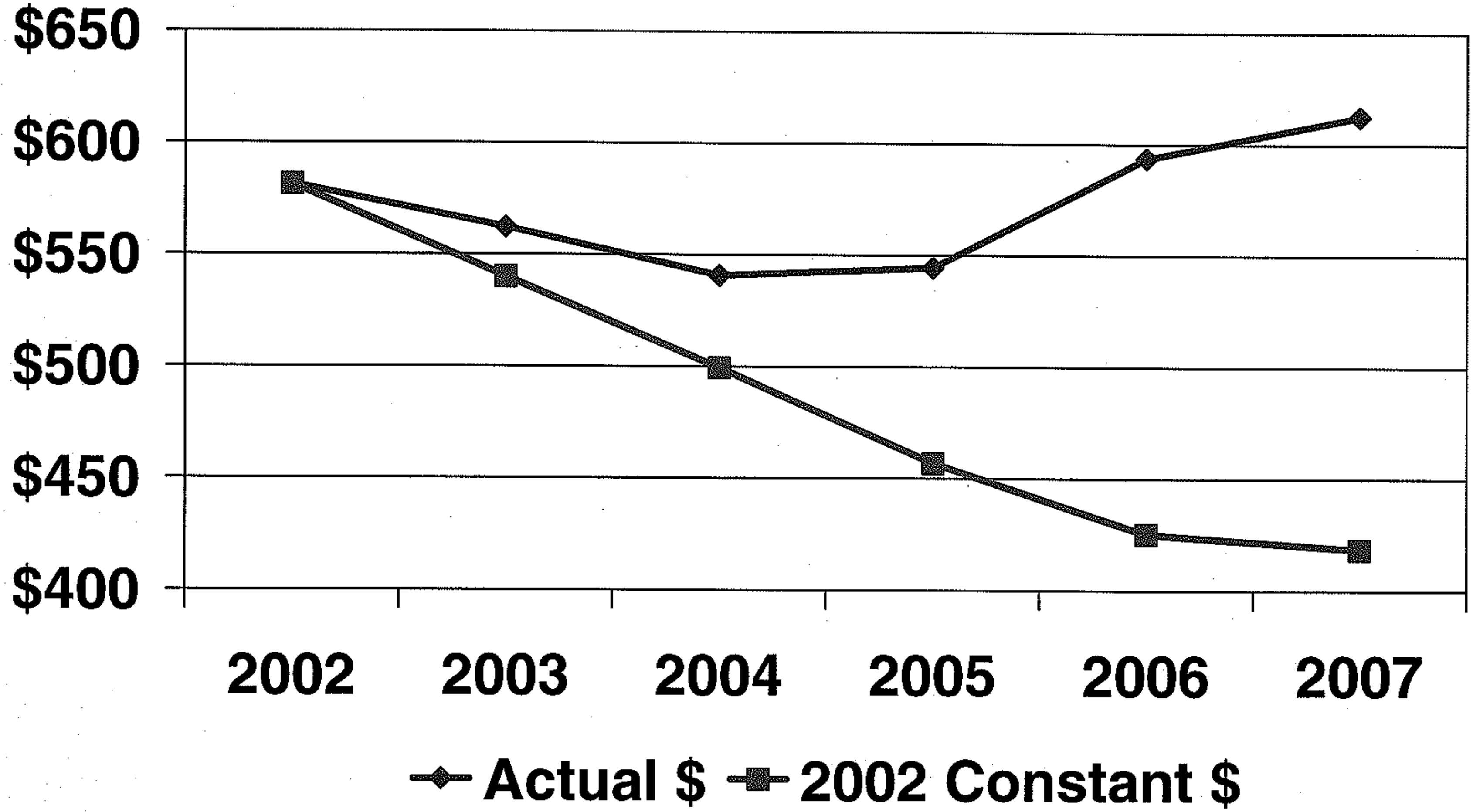
The Legislature just passed a bill that requires a $48.5 million reduction in transportation spending, just to fix a $48.5 million Transportation Fund deficit in this biennium. Sometime later this year, the Legislature will pass a Biennial Budget that either ignores transportation needs, or raises new revenues to begin addressing those needs. This bill will impact that equation, before the budget is even enacted.

It is especially ironic to consider a bill to exempt school busing from the fuel tax and simultaneously consider a budget provision to permanently shift part of the cost of school busing from DPI as an education cost to the Transportation Fund, which is virtually unprecedented.

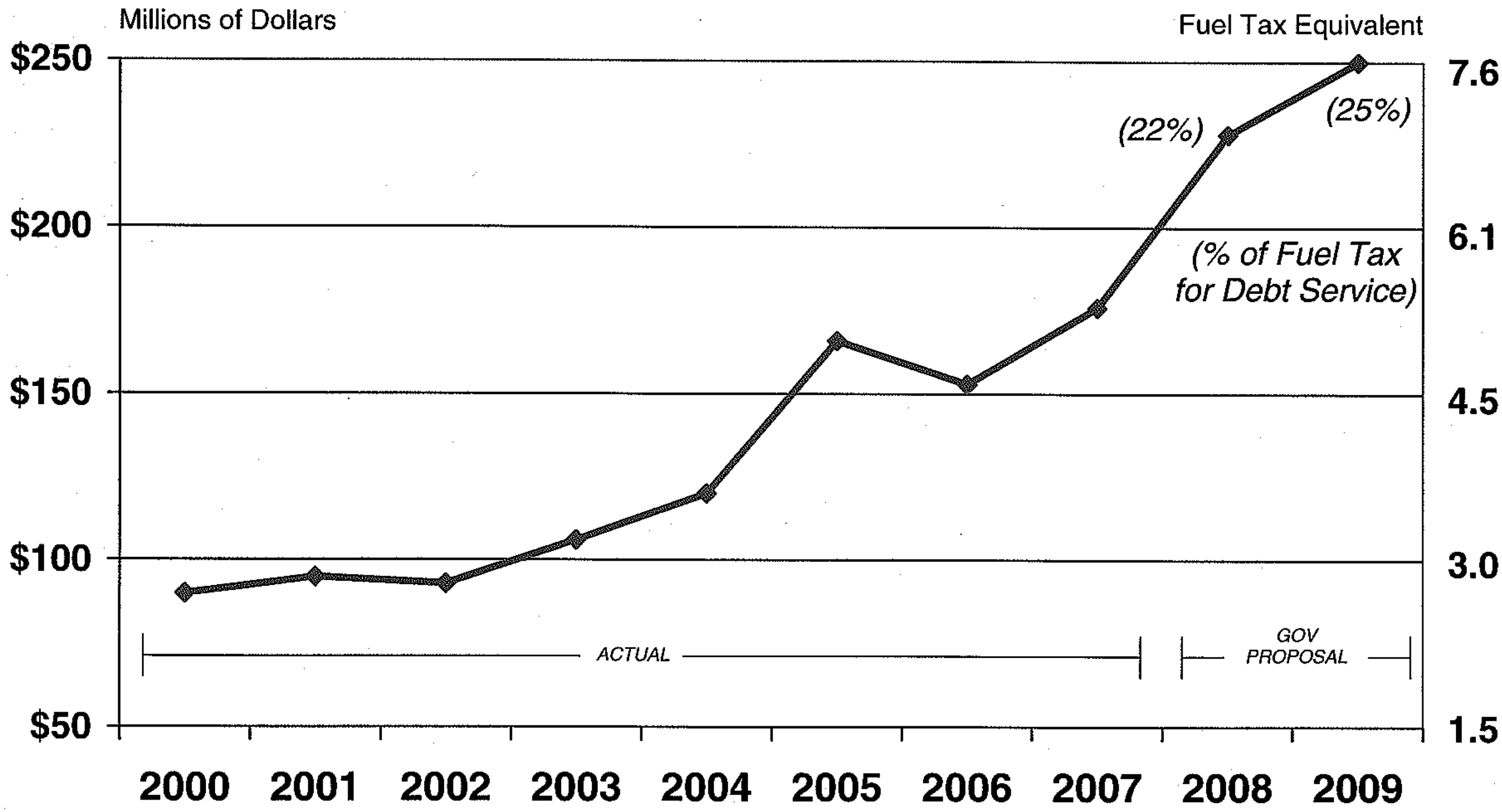
That brings me back to what I said earlier about education and roads. Each is a state priority; each needs sufficient funding to meet the state's future needs. Isn't it time to refocus the debate on how to get that done, and away from counter-productive arguments about funding shifts, which is ultimately what AB-112 does?

Thank you for your time

STH REHABILITATION



TRANSPORTATION FUND DEBT SERVICE



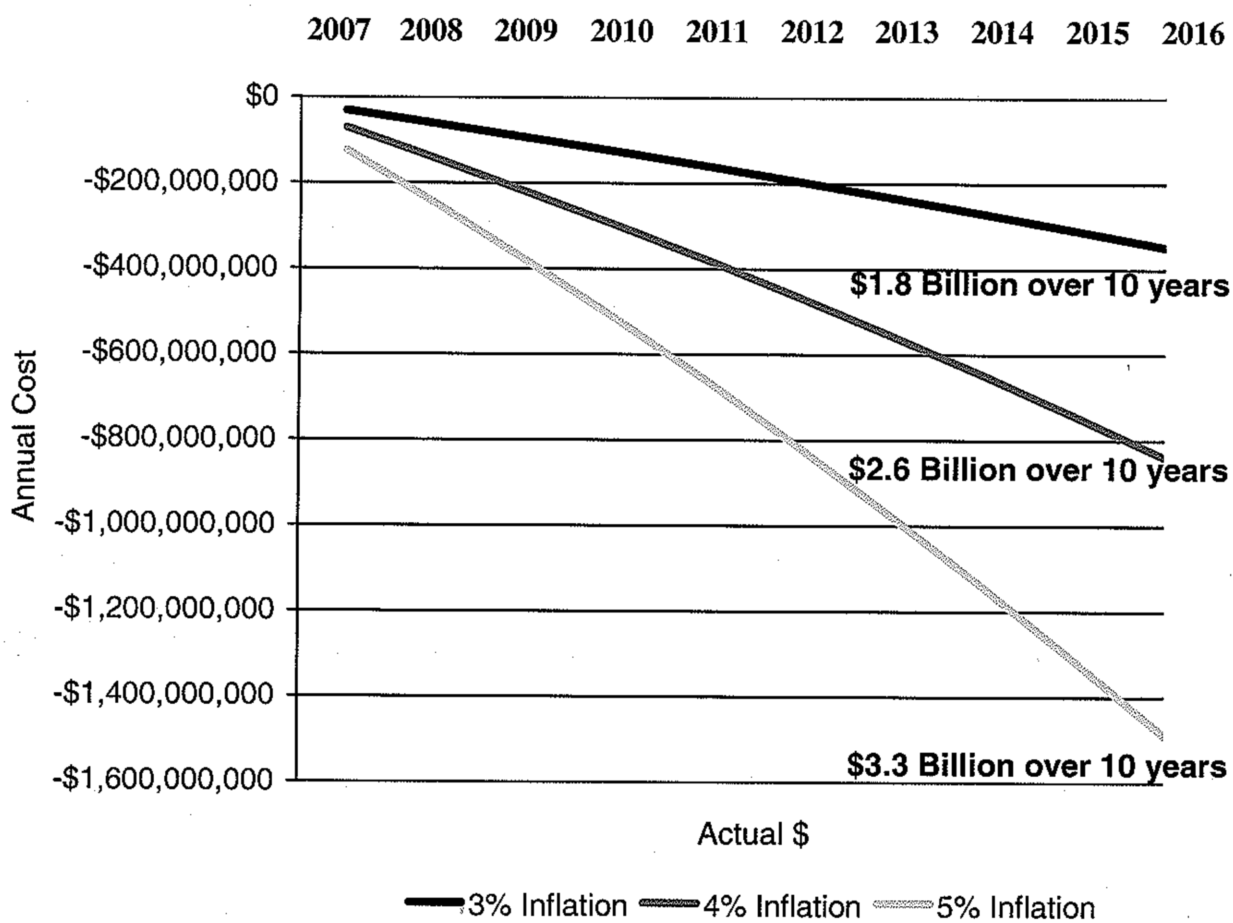
Each 1.0 Cent in Fuel Tax Generates Approximately $33 Million in Revenue

Impact of Fuel Tax Indexing Repeal

- From 1985 to 2006, Wisconsin's fuel tax rate was indexed to inflation to ensure that the primary source of state transportation funding could increase to maintain the buying power of those revenues in the face of inflation.

- Sales and income tax revenues rise automatically with no increase in rates because they are tied to the price of goods and worker salaries.

- 2005 Wisconsin Act 84 repealed fuel tax indexing. The final automatic increase in the fuel tax rate – to 30.9 cents per gallon – occurred on April 1, 2006. The chart below shows the impact the repeal of indexing will have on the Transportation Fund over the next decade, assuming no increase in fuel consumption and various levels of inflation:



Note: This projection about the loss in transportation revenue due to the repeal of fuel tax indexing assumes no change in fuel consumption over the next decade. It is quite possible that future fuel consumption will decline as motorists react to high fuel prices by purchasing more fuel-efficient or alternatively fueled vehicles. If this occurs, the revenue loss under each inflation scenario would be greater.